SBC Analysis: President's Deficit Plan Fails To Cut Spending By One Penny

Today, the president finally provided a fiscal plan on paper that reflects his latest vision for the country. Relative to the administration's current policy baseline, the president claims his plan would increase the fiscal year 2012 deficit by $300 billion but reduce deficits over the next 10 years by $3.2 trillion.

However, this claim is overstated by $1.8 trillion because of three gimmicks: (1) taking credit for savings from a reduction in war spending that all parties agree will occur, (2) hiding spending for the annual Medicare "Doc Fix" that should be offset, and (3) counting interest savings as spending reduction even though debt service savings are not a policy.

Properly accounting for the effect of the president's proposed policy changes, **the actual amount of net deficit reduction proposed by the president is $1.409 trillion, consisting of $146 billion in spending increases and $1.555 trillion in tax increases**. (See table below.)

The President's Gimmicks

The plan put forth by the president is made to look more heavily weighted to spending cuts through three gimmicks. First, the plan shows $1.1 trillion in savings from putting a cap on war costs, but those costs are going to decrease as the war effort unwinds whether or not the cap is in place. The president's proposed caps manipulate baseline concepts to show the savings as a policy choice, which inflates the spending reductions in the president's plan. The Congress rightly rejected this approach at deficit reduction during the recent debt limit debate.

Second, the administration's baseline assumes a Medicare "Doc Fix" (physician payment freeze), an increase in spending of $293 billion over ten years compared to a current law baseline. This trick counts the higher spending as a given rather than as a policy choice that needs to be offset. Without this gimmick, the president's health care savings of $320 billion become health care savings of only $27 billion.

Finally, the president counts as savings the net interest effects of his proposed policy changes—even though interest costs are the secondary effect of legislative changes rather than a change that is voted on by the Congress. Further, even if it one were to count the deficit effect of lower interest payments in evaluating the effect of the president's plan, it would be fairer to attribute the interest savings to the policies that lead to the lower interest—which, in the case of the president's proposal, would only augment the deficit increase attributable to tax hikes.

Ignoring the effects of these gimmicks, the president's proposal is nothing more than a call to raise taxes rather than cut spending or reform entitlements.

Despite the substantial increase in taxation under the president's plan, deficits would not be tamed. In fact, at no point over the next 10 years would deficits be smaller in nominal terms than the $459 billion recorded prior to the Obama presidency; the lowest deficit under today's plan would be $476 billion in 2014, increasing to $565 billion in 2021. Over 10 years, deficits would total $6.4 trillion, and gross federal debt would increase by $9.7 trillion to exceed $24.6 trillion in 2021—remaining over 100 percent of the nation's gross domestic product.

Fiscal Policy in President Obama's September 2011 Budget Plan

(Fiscal Years 2012-2021, in Billions of Dollars)

	Total
Spending:[1]	
Stimulus (American Jobs Act)[2]	430
Medicare "Doc Fix" (Payment Freeze)	293
Other Medicare Changes	-248
Medicaid and Other Health	-73
Other Mandatory Policy Changes	-257
Net Spending Changes	146
Taxes:[3]	
Stimulus (American Jobs Act)	-17
Tax "Reform"	1,573
Net Tax Changes	1,555
Net Policy Changes[4]	-1,409
Tax Increases as Share Net Deficit Reduction	110%

[1]--Spending increases are shown as positive (+) and spending decreases are shown as negative (-).

[2]--Includes payroll tax reductions as spending because it is expected that the trust funds will receive general fund transfers to avoid any reduction in trust fund balances.

[3]--Tax increases are shown as positive (+) and tax decreases are shown as negative (-).

[4]--Deficit increases are shown as positive (+) and deficit decreases are shown as negative (-).

- Prepared by Senate Budget Committee Republican staff, September 19, 2011 -